

KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS  
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2016 AND 2015



KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

**TABLE OF CONTENTS**

INDEPENDENT AUDITOR'S REPORT	2
STATEMENTS OF FINANCIAL POSITION December 31, 2016 and 2015	4
STATEMENTS OF ACTIVITIES Years ended December 31, 2016 and 2015	5
STATEMENTS OF FUNCTIONAL EXPENSES Years ended December 31, 2016 and 2015	6
STATEMENTS OF CASH FLOWS Years ended December 31, 2016 and 2015	7
NOTES TO FINANCIAL STATEMENTS	8 - 16

INDEPENDENT AUDITOR'S REPORT

July 14, 2017

Board of Directors  
King County Library System Foundation  
Issaquah, Washington

We have audited the accompanying financial statements of King County Library System Foundation, a nonprofit corporation, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to in the first paragraph of this letter present fairly, in all material respects, the financial position of King County Library System Foundation as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Jacobson Jarvis & Co, PLLC*

Jacobson Jarvis & Co, PLLC

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 380,681	\$ 522,176
Investments	1,594,903	1,430,241
Current promises to give, net	80,100	105,250
Other receivables	28,884	16,138
Other current assets	11,250	41,112
Total Current Assets	<u>2,095,818</u>	<u>2,114,917</u>
Endowment Investments	772,652	677,769
Beneficial Interest in Charitable Lead Annuity Trust	521,482	591,202
Total Assets	<u>\$ 3,389,952</u>	<u>\$ 3,383,888</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 43,067	\$ 73,087
Programs payable	108,297	-
Total Liabilities	<u>151,364</u>	<u>73,087</u>
Net Assets		
Unrestricted	1,143,149	1,127,664
Unrestricted - board-designated	782,000	765,825
Total Unrestricted Net Assets	<u>1,925,149</u>	<u>1,893,489</u>
Temporarily restricted	104,837	222,990
Permanently restricted	1,208,602	1,194,322
Total Net Assets	<u>3,238,588</u>	<u>3,310,801</u>
	<u>\$ 3,389,952</u>	<u>\$ 3,383,888</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support, Revenue, and Other Support								
In-kind contributions	\$ 794,105			\$ 794,105	\$ 793,347			\$ 793,347
Other contributions	353,111	\$ 355,915	\$ -	709,026	234,667	\$ 212,147	\$ -	446,814
Special events revenue, less the costs of direct benefits to donors of \$97,810 and \$63,927	240,304	-		240,304	310,411	-		310,411
Book sales	160,012	-		160,012	202,228	-		202,228
Investment income	37,084	14,076		51,160	16,598	39,422		56,020
Other revenues	34,300	-		34,300	35,982	-		35,982
Net assets released from purpose restrictions	514,285	(514,285)	-	-	126,465	(126,465)	-	-
Total Public Support, Revenue, and Other Support	<u>2,133,201</u>	<u>(144,294)</u>	<u>-</u>	<u>1,988,907</u>	<u>1,719,698</u>	<u>125,104</u>	<u>-</u>	<u>1,844,802</u>
Expenses								
Program services	1,492,761			1,492,761	1,216,003			1,216,003
Management and general	171,765			171,765	205,663			205,663
Fundraising	502,727			502,727	479,214			479,214
Total Expenses	<u>2,167,253</u>	<u>-</u>	<u>-</u>	<u>2,167,253</u>	<u>1,900,880</u>	<u>-</u>	<u>-</u>	<u>1,900,880</u>
Change in Net Assets Before Gains and Losses	<u>(34,052)</u>	<u>(144,294)</u>	<u>-</u>	<u>(178,346)</u>	<u>(181,182)</u>	<u>125,104</u>	<u>-</u>	<u>(56,078)</u>
Gains and Losses								
Net gain (loss) on investments	65,712	26,141		91,853	(35,274)	(53,629)		(88,903)
Change in value of charitable lead annuity trust	-	-	14,280	14,280	-	-	20,855	20,855
Total Gains and Losses	<u>65,712</u>	<u>26,141</u>	<u>14,280</u>	<u>106,133</u>	<u>(35,274)</u>	<u>(53,629)</u>	<u>20,855</u>	<u>(68,048)</u>
Total Change in Net Assets	31,660	(118,153)	14,280	(72,213)	(216,456)	71,475	20,855	(124,126)
Net Assets – beginning of year	<u>1,893,489</u>	<u>222,990</u>	<u>1,194,322</u>	<u>3,310,801</u>	<u>2,109,945</u>	<u>151,515</u>	<u>1,173,467</u>	<u>3,434,927</u>
Net Assets – end of year	<u>\$1,925,149</u>	<u>\$ 104,837</u>	<u>\$1,208,602</u>	<u>\$3,238,588</u>	<u>\$ 1,893,489</u>	<u>\$ 222,990</u>	<u>\$1,194,322</u>	<u>\$3,310,801</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Program expenses and materials	\$1,278,382	\$ -	\$ 20,692	\$1,299,074	\$1,119,421	\$ -	\$ 240	\$1,119,661
In-kind staff	140,223	110,498	186,125	436,846	57,239	138,296	164,839	360,374
Professional fees	43,677	21,656	79,466	144,799	29,656	26,465	87,400	143,521
Special events	1,905	1,066	95,657	98,628	1,110	884	80,766	82,760
In-kind office support	23,871	18,649	32,078	74,598	8,501	19,734	55,008	83,243
Printing, mail house services and postage	-	-	64,264	64,264	-	296	63,910	64,206
Investment and bank fees	-	15,041	10,946	25,987	-	14,440	9,583	24,023
Miscellaneous	4,703	4,855	13,499	23,057	76	5,548	17,468	23,092
Total Expenses	<u>\$1,492,761</u>	<u>\$ 171,765</u>	<u>\$ 502,727</u>	<u>\$2,167,253</u>	<u>\$1,216,003</u>	<u>\$ 205,663</u>	<u>\$ 479,214</u>	<u>\$1,900,880</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from donors	\$ 1,072,290	\$ 764,194
Cash received from book sales	147,266	226,912
Cash received from others	34,300	35,982
Cash received from interest	2,428	1,398
Cash paid to vendors	(569,607)	(628,781)
Cash paid to KCLS	(785,912)	(585,916)
Grants paid to others	<u>(7,300)</u>	<u>(13,029)</u>
Net Cash Used by Operating Activities	<u>(106,535)</u>	<u>(199,240)</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	266,122	519,303
Purchases of investments	<u>(385,082)</u>	<u>(592,753)</u>
Net Cash Used by Investing Activities	<u>(118,960)</u>	<u>(73,450)</u>
<b>Cash Flows Provided by Financing Activities</b>		
Cash received from beneficial interest in charitable lead annuity trust	<u>84,000</u>	<u>84,000</u>
Change in Cash and Cash Equivalents	(141,495)	(188,690)
Cash and Cash Equivalents - beginning of year	<u>522,176</u>	<u>710,866</u>
Cash and Cash Equivalents - end of year	<u>\$ 380,681</u>	<u>\$ 522,176</u>
<b>Reconciliation of Change in Net Assets to Cash</b>		
<b>Flows from Operating Activities</b>		
Change in net assets	\$ (72,213)	\$ (124,126)
Adjustments to reconcile change in net assets to cash used by operating activities:		
Net (gain) loss on investments	(91,853)	88,903
Change in value of charitable lead annuity trust	(14,280)	(20,855)
Reinvested dividends	(48,732)	(54,622)
Decrease (increase) in:		
Promises to give	25,150	(56,958)
Other receivables	(12,746)	24,684
Other current assets	29,862	(20,614)
(Decrease) increase in:		
Accounts payable	(30,020)	40,575
Programs payable	<u>108,297</u>	<u>(76,227)</u>
Net Cash Used by Operating Activities	<u>\$ (106,535)</u>	<u>\$ (199,240)</u>



# KING COUNTY LIBRARY SYSTEM FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The mission of the King County Library System (KCLS or the Library) is to provide free, open, and equal access to ideas and information to all members of the community. The King County Library System Foundation (KCLS Foundation) provides funding for initiatives that address community needs, ensures that the library system is able to realize its mission, and encourages our public library system to remain vibrant, relevant and central in the lives of residents. For more information, visit [www.kclsfoundation.org](http://www.kclsfoundation.org).

#### **Programs executed by KCLS Foundation or receiving significant support in 2016 include:**

Thanks to a generous and unexpected estate gift from Dorothy M. Provine, \$150,000 was granted to improve the Des Moines Library. The funds will be used to improve the meeting room space in the library. Construction will begin in 2017.

Nearly \$150,000 was given to expand the KCLS Summer Reading program, including the adding of programs billed as Adult Summer Reading, which encouraged adults, especially parents, to take time to read. It has been proven that one of the best ways to encourage children to read is to have them observe their parents reading. More than 50,000 children and teens participated and reported reading a total of 17 million minutes or 32 years' worth of reading over the months of June, July, and August. As part of this program, transportation was provided for summer school students to library programs.

\$132,000 funded the Let's READ! program. More than 631 visits were conducted to parks, apartment complexes, and community centers in an effort to engage children and communities not served via the traditional outreach efforts of KCLS. More than 26,000 children participated in these programs and 18,500 books were distributed for children to start their own home libraries.

\$125,000 was granted as the final payment of the \$1,000,000 commitment to support the building of the new Tukwila Library (a total of \$875,000 was given to KCLS in the years 2013, 2014, and 2015). Home to the most diverse zip code in the United States, the Tukwila community will benefit from having a new 10,000 square foot library which will allow for increased cultural programs, technology and literacy training sessions, civic gatherings and festivals.

\$101,000 enabled KCLS to launch the pilot program ideaX. Celebrating STEM (science, technology, engineering, and math) programs, the ideaX pilot engaged children and teens in robotics, electronics, coding, 3D design, and music mixing. Programs were hosted in each of the 49 libraries.

# KING COUNTY LIBRARY SYSTEM FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

KCLS Foundation granted \$96,000 for the new KCLS eBook kiosks at SeaTac airport near the A and D concourses. The goal of these kiosks is to increase usage of electronic materials by letting travelers know about the wealth of books, movies, and music available online through kcls.org. Installed just prior to the Thanksgiving holiday season, the kiosks were responsible for generating more than 600 temporary library cards and sharing 2,600 links to the KCLS collection.

Approximately \$56,000 supported the pilot program of WiFi Hot Spot Lending. Directed at library patrons who lack internet access at home, KCLS Foundation supported the purchase of 200 devices which were lent out more than 1,300 times to more than 650 different users. Patrons reported using the devices for everything from homework, to job searching, to communicating with family outside the area. 73% of those who borrowed the devices do not currently have WiFi at home.

\$30,000 funded three programs to support the growing aging population, including the Aging Summit, Tele Town Hall and Wisdom Café. The Tele Town Hall, held in May 2016, connected more than 1,000 people via phone to experts on Social Security and Medicare. A survey following the event indicated that 87% of participants felt more connected to the library after joining the Tele Town Hall. Additionally, the Aging Summit brought seniors and younger patrons together to learn and play with programs such as robotics, music, and literature. Finally, KCLS worked with Northwest Center for Creative Aging to facilitate the Wisdom Café events, which brought seniors together in creative conversation.

#### **KCLS Foundation activities of significant import in 2016 include:**

KCLS Foundation held the Literary Lions Gala in March 2016, raising \$322,000 in funds and engaging 750 attendees. Best-selling author and award-winning novelist Ruth Reichl was the event keynote and Nancy Pearl served as the evening's emcee. The event was held at the Bellevue Hyatt Regency and featured local authors including Jonathan Evison, Renee Erickson, Deb Caletti, Elizabeth George, and Ken Jennings, among others.

#### Federal income taxes

The Internal Revenue Service has recognized KCLS Foundation as exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and not as a private foundation.

#### Basis of presentation

In accordance with financial accounting standards, KCLS Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets of KCLS Foundation are classified as follows:

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unrestricted net assets are available without restriction for support of KCLS Foundation's operations. The Board of Directors designated \$782,000 and \$765,825 of unrestricted net assets for operating reserves and specific programs as of December 31, 2016 and 2015, respectively.

Temporarily restricted net assets are restricted by the donors to be used for certain purposes or future periods. Temporarily restricted net assets are available as follows at December 31:

	<u>2016</u>	<u>2015</u>
Early Literacy and Children's Programs	\$ 85,532	\$ 74,649
Mobile Maker/ ideaX	9,571	-
Let's READ! Program	2,240	134,292
Teen Programming	-	9,153
Community Leaders/ State of the Library	1,230	1,230
Other Programs/ Branch Gifts	6,264	3,666
	<u>\$ 104,837</u>	<u>\$ 222,990</u>

Permanently restricted net assets are endowment gifts given with the intent that the principal will be maintained intact in perpetuity, and the income is available for use.

Cash and cash equivalents

Cash and cash equivalents consist of checking accounts, money market funds, and certificates of deposit. Certificates of deposit bear interest ranging from 0.75% to 1.23% and have original maturities of 6 to 12 months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements. KCLS Foundation maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year or that are uninsured. KCLS Foundation has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk. The fair values of the money market funds at December 31, 2016 and 2015, were classified as Level 1 under financial accounting standards, as amounts were based on quoted prices available in active markets for identical investments as of the reporting date.

Fair value measurements

In accordance with financial accounting standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial accounting standards defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of inputs used for fair value measurements are as follows:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Investments

Investments are stated at fair value and consist of the following:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 90,953	\$ 80,294
Equities	1,771,320	1,573,566
Bonds	<u>505,282</u>	<u>454,150</u>
	<u>\$ 2,367,555</u>	<u>\$ 2,108,010</u>

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Receivables

Receivables are stated at their net realizable value.

Promises to give

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Promises to give of \$80,100 and \$105,250 are shown net of the allowance for uncollectible amounts of \$3,000 at December 31, 2016 and 2015, respectively, and are due in less than one year.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. KCLS Foundation had no conditional promises to give at December 31, 2016 or 2015.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and unrestricted support

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When restrictions expire (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Gifts of property and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Bequests

KCLS Foundation has been named as beneficiary in certain bequests which are revocable during the donors' lifetime. Due to the uncertain nature of these intentions, KCLS Foundation has not recognized an asset or contribution for these gifts.

In-kind services and supplies

KCLS Foundation receives donated facilities, equipment, supplies, postage, printing and staff support from KCLS. KCLS Foundation also receives donated goods in support of the Summer Learning Program. The value of these items has been reflected in the accompanying financial statements as in-kind staff and in-kind office support.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Use of estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions, such as the change in value of the charitable lead annuity trust, that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE B - RELATED PARTIES

KCLS Foundation promotes literacy, learning, and libraries by providing support beyond public funding for initiatives and resources that enable KCLS to better serve the needs of the community. By its nature, KCLS Foundation is related to the Library and has numerous transactions with it. In support of library programs and projects, KCLS Foundation recognized expenses in the amounts of \$1,299,074 and \$1,119,661 related to amounts directly paid to the Library or to vendors on behalf of the Library for the years ended December 31, 2016 and 2015, respectively. Library in-kind staff and office support expenses were valued at \$436,846 and \$443,617 for the years ended December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, KCLS Foundation had payables directly owed to the Library of \$138,874 and \$35,743, respectively.

NOTE C - CHARITABLE LEAD ANNUITY TRUST

In June 2008, KCLS Foundation received a beneficial interest in a charitable lead annuity trust. The donor funded a trust to make payments to KCLS Foundation of \$84,000 per year over a fifteen-year period. In 2023, the remaining assets will be paid to the donor's surviving children. Assets received were recorded at fair value of \$1,260,000 on the date of the agreement, with a related discount of \$266,604 to net present value based on future cash flows. On an annual basis, KCLS Foundation revalues the asset, considering the passage of time, expected future cash flows, and discount rate assumptions, to reflect current market conditions.

NOTE D - FAIR VALUE MEASUREMENTS

Assets carried at fair value on a recurring basis (at least annually) consist of the following:

	Quoted Prices (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)	Total
As of December 31, 2016				
Equities	\$ 1,771,320	\$ -	\$ -	\$ 1,771,320
Bonds	505,282	-	-	505,282
Charitable lead annuity trust	-	-	521,482	521,482
Total	<u>\$ 2,276,602</u>	<u>\$ -</u>	<u>\$ 521,482</u>	<u>\$ 2,798,084</u>
As of December 31, 2015				
Equities	\$ 1,573,566	\$ -	\$ -	\$ 1,573,566
Bonds	454,150	-	-	454,150
Charitable lead annuity trust	-	-	591,202	591,202
Total	<u>\$ 2,027,716</u>	<u>\$ -</u>	<u>\$ 591,202</u>	<u>\$ 2,618,918</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE D - FAIR VALUE MEASUREMENTS (Continued)

Beneficial interest in charitable lead annuity trust activity for the years ended December 31 is as follows:

	<u>2016</u>	<u>2015</u>
Fair value - beginning of year	\$ 591,202	\$ 654,347
Trust distributions	(84,000)	(84,000)
Change in value of charitable lead annuity trust	<u>14,280</u>	<u>20,855</u>
Fair value - end of year	<u>\$ 521,482</u>	<u>\$ 591,202</u>

There were no movements between levels in the current and prior years, except for trust distributions noted above which moved from level 3 to level 1 each year as cash was received and subsequently invested. Assets and liabilities carried at fair value on a nonrecurring basis using level 2 inputs generally include donated goods, facilities and services.

NOTE E - ENDOWMENT

The KCLS Foundation endowment consists of one donor-restricted fund established for Early Literacy and Children's Programs. The endowment includes both permanently and temporarily donor-restricted funds which are classified and reported based on the existence of donor-imposed restrictions.

**Interpretation of Relevant Law**

Endowments in Washington State are governed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as stated in the Revised Code of Washington (RCW) 24.55. KCLS Foundation Board has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, KCLS Foundation classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets.

**Return Objectives and Risk Parameters**

KCLS Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

# KING COUNTY LIBRARY SYSTEM FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

### NOTE E - ENDOWMENT (Continued)

KCLS Foundation endowed funds consisting of all general operating endowment funds, named endowed funds, and quasi-endowment funds, are managed in accordance with the Investment Objectives and Guidelines adopted for investment funds (the “Fund”) of KCLS Foundation. The Fund is managed to provide long-term growth and income.

The specific priorities ranked in order of importance are:

- (1) Capital appreciation due to a relatively long (7-year minimum) time horizon
- (2) Growth of principal / maintenance of purchasing power
- (3) Diversification / stability of principal
- (4) Generation of current income
- (5) Mitigation of risk through limited use of alternative investments

### **Spending Policy and How the Investment Objectives are Related to the Spending Policy**

KCLS Foundation’s spending policy, expressed as a percentage of market value of the endowment, is determined on a year-to-year basis by the Board upon recommendation of the Finance and Audit Committee. The policy provides the Finance and Audit Committee the latitude to recommend spending up to approximately five percent of the average market value of the endowment over the last 12 quarters.

### **Strategies Employed for Achieving Objectives**

KCLS Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). KCLS Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

### **Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires KCLS Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2016 or 2015.



KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE E - ENDOWMENT (Continued)

Change in endowment net assets for the year ended December 31, 2016:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets				
January 1, 2016	\$ -	\$ 74,649	\$ 603,120	\$ 677,769
Plus:				
Trust distributions	-	-	84,000	84,000
Investment income	-	14,076	-	14,076
Net gain on investments	-	26,141	-	26,141
Less:				
Appropriation of endowment assets for expenditure	-	(29,334)	-	(29,334)
Endowment net assets				
December 31, 2016	<u>\$ -</u>	<u>\$ 85,532</u>	<u>\$ 687,120</u>	<u>\$ 772,652</u>

Change in endowment net assets for the year ended December 31, 2015:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets				
January 1, 2015	\$ -	\$ 112,780	\$ 519,120	\$ 631,900
Plus:				
Trust distributions	-	-	84,000	84,000
Investment income	-	39,422	-	39,422
Net loss on investments	-	(53,629)	-	(53,629)
Less:				
Appropriation of endowment assets for expenditure	-	(23,924)	-	(23,924)
Endowment net assets				
December 31, 2015	<u>\$ -</u>	<u>\$ 74,649</u>	<u>\$ 603,120</u>	<u>\$ 677,769</u>

NOTE F - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2016 through July 14, 2017, which is the date the financial statements were available to be issued and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at December 31, 2016 including the estimates inherent in the processing of financial statements.